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24 May 1985

MEMORANDUM FOR: Mr. Larry Mondschein
Office of Indonesia, Malaysia, Brunei, and Singapore Affairs
Department of State

FROM [redacted] 25X1
Office of European Analysis
Central Intelligence Agency

SUBJECT : Impact of US Import Demand on World Economic Activity ( )

1. In response to your request of 23 May, I have attached a copy of our International Economic and Energy Weekly article entitled "Summit Issues: Impact of the US Recovery on the OECD (C NF)", dated 29 March 1985. This article deals mainly with the impact on the developed countries. [redacted] 25X1

2. Implicit in this work is an estimate of the impact of the US import surge on the developing countries. We based our work on preliminary data that US imports--in real terms--from the non-OPEC LDCs increased 22 percent in 1983 and 23 percent in 1984, and that aggregate non-OPEC LDC real GNP increased 0.7 percent in 1983 and 3 percent in 1984. If instead, US imports remained at 1982 levels in both 1983 and 1984, simulations with our model indicate that non-OPEC LDC real GNP growth would have been about 0 in 1983 and only 1.5 percent in 1984. These results include the indirect impact of US demand pushing up overall OECD economic activity and thus stimulating demand from all the developed countries for LDC exports. [redacted] 25X1

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Attachment: As stated

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Summit Issues: Impact of the US Recovery on the OECD

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Strong US import demand accounted for almost one-half of the 3.4-percent GNP growth in the other OECD countries last year. The increase in US imports came primarily in manufactures, a trend that especially favored the Big Six economies, the major suppliers of these goods. Canada and Japan gained the most from US trade; the United Kingdom and France benefited the least. 25X1

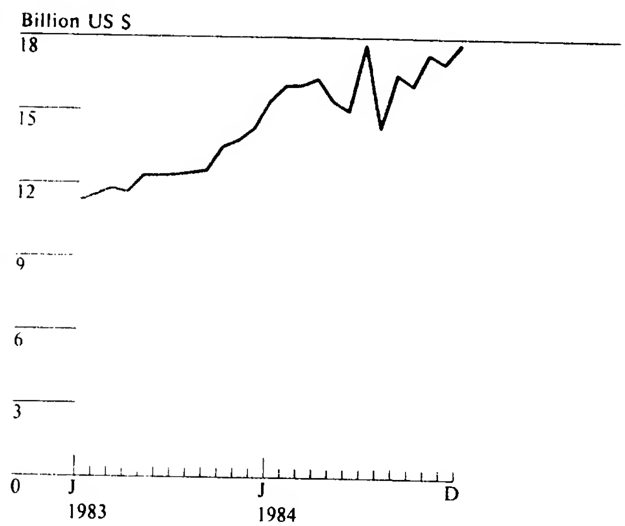
Impact of the US Recovery

The United States last year was the fastest growing major export market for the other OECD countries, accounting for about two-thirds of their export growth. The robust US economic expansion and the rising dollar helped boost OECD exports in 1984 to the United States by 29 percent over the previous year—a sharp rebound from 1982 when these exports fell by almost 2 percent. In contrast, most other markets for OECD goods posted only moderate gains over 1983. 25X1

According to simulations of our Linked Policy Impact Model (LPIM), the full impact of export sales to the US market alone boosted OECD GNP growth by 1.6 percentage points in 1984. As a result, we estimate that employment remained 1.5 million higher than otherwise would have been the case. 25X1

The impact of the expansion in US import demand on the individual OECD countries varied primarily according to the relative importance of the US export market for each economy. The Canadian and Japanese economies received the largest stimulus because the United States accounts for 70 percent and 35 percent, respectively, of each country's sales abroad. The four major West European countries received a smaller boost because the United States accounts for 7 to 14 percent of their total exports. 25X1

United States: Imports From the OECD, Seasonally Adjusted, 1983-84



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Trade Trends

Manufactures accounted for almost 90 percent of the increase in OECD exports to the United States. The biggest increases came in machinery and transport equipment where motor vehicles and electrical machinery accounted for almost 60 percent of the total increase for the two categories. Semifinished goods, the third-largest category under

United States: Imports From the OECD *Billion US $*

	1982	1983	1984
Total	**139.2**	**149.7**	**193.0**
Big Six	120.1	129.9	167.2
Japan	37.7	41.2	55.9
West Germany	12.0	12.7	16.5
France	5.5	6.0	7.9
United Kingdom	13.1	12.5	14.1
Italy	5.3	5.5	7.5
Canada	46.5	52.1	65.3
Small Seventeen	19.1	19.8	25.8

[redacted]

Estimating the Impact of US Import Demand

We used our Linked Policy Impact Model to estimate the impact of the expansion in US import demand on OECD exports and economic growth. To estimate this impact, we determined the difference between actual trade, employment, and GNP growth for 1983 and 1984 and the simulated results for the same variables assuming no growth in US imports. Because the model links all OECD economies, the results capture not only the direct impact of increased exports to the United States, but also the indirect effects on domestic consumption and investment as well as increased exports to each other and the rest of the world. [redacted] 25X1 25X1

manufactures, got its major boost from a $3.6 billion gain in metal sales. Consumer electronics, chemicals, and fuel were other areas where US import growth was strong. [redacted]

Canada, which supplies one-third of US imports from the OECD, would have suffered a decline in GNP (according to the LPIM) without the $13 billion rise in its sales to the United States. In particular, the Canadians boosted vehicle exports by $5 billion last year, one-half the OECD total. Japan, the second-largest exporter to the United States, posted $56 billion in sales in 1984 for a 36-percent gain. Japanese producers accounted for most of the OECD increase in sales of electrical machinery, business machines, and consumer electronics. Although the four major West European countries averaged a 25-percent increase in exports to a total of $46 billion last year, total British sales rose by only 13 percent because of a $728 million plunge in raw material exports, mostly unwrought silver. British manufacturers, however, matched the performance of the other West European economies, boosting exports by almost one-third. The West Germans made their gains in such traditional products as vehicles, heavy industrial machinery, and metals, and the Italians did well in textiles and apparel. French increases were moderate. [redacted] 25X1 25X1

Implications

Although US import demand is helping all the OECD economies, it cannot solve their fundamental economic problems over the medium term. The benefits flowing to these countries, nevertheless, do provide an economic cushion as they restructure their industries and grapple with increasing unemployment. [redacted] 25X1

West European leaders are aware of the beneficial impact of the US expansion, but the recent strengthening of the US dollar is rekindling criticism of US economic policies. Policymakers in most industrial countries are worried that the trade

OECD: Export Gains to the United States, 1984

Change from previous year

	OECD	Big Six	Japan	West Germany	France	United Kingdom	Italy	Canada
Total								
(million US $)	**43,280**	**37,237**	**14,747**	**3,788**	**1,828**	**1,678**	**2,014**	**13,183**
(percent)	**28.9**	**28.7**	**35.8**	**29.8**	**30.4**	**13.5**	**36.9**	**25.3**
Foodstuffs								
(million US $)	959	698	73	73	112	4	61	374
(percent)	11.0	13.4	19.8	17.5	15.6	0.6	12.0	15.0
Raw materials								
(million US $)	670	332	−12	80	24	−728	9	961
(percent)	6.4	3.8	−8.3	39.4	15.3	−67.8	12.0	13.4
Fuels								
(million US $)	2,644	1,461	44	−24	52	229	268	893
(percent)	17.8	11.5	266.7	−25.5	92.9	5.5	125.8	10.9
Manufactures								
(million US $)	38,345	34,344	14,700	3,724	1,708	1,917	1,656	10,639
(percent)	35.2	34.9	36.6	32.1	35.4	32.2	36.2	34.0
Chemicals								
(million US $)	2,111	1,740	164	293	281	238	111	654
(percent)	24.1	24.9	15.0	23.9	32.0	23.3	36.9	26.3
Semifinished								
(million US $)	6,951	5,355	1,734	817	314	245	472	1,773
(percent)	37.5	33.4	34.2	52.2	31.3	31.1	48.7	26.6
Machinery								
(million US $)	13,753	12,582	7,005	1,076	656	863	387	2,595
(percent)	48.0	48.9	58.2	27.3	54.3	38.9	38.8	49.0
Transport								
(million US $)	11,098	10,753	3,120	1,414	306	464	190	5,257
(percent)	29.1	29.5	20.9	34.1	28.1	46.8	49.4	35.1
Consumer products								
(million US $)	4,433	3,914	2,675	124	150	108	496	360
(percent)	29.5	29.9	38.1	16.7	23.1	11.5	25.8	19.6
Other								
(million US $)	661	403	−57	−65	−69	257	22	315
(percent)	9.9	8.4	−11.0	−18.1	−26.1	45.9	26.8	10.4

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United States: Contribution to OECD Economic Growth [a]

Percentage points

	1983		1984	
	GNP Growth	US Imports	GNP Growth	US Imports
Non-US OECD	**1.8**	**0.5**	**3.4**	**1.6**
Big Six	2.0	0.6	3.7	2.4
Japan	3.0	0.8	5.8	3.2
West Germany	1.3	0.4	2.5	1.7
France	0.7	0.3	1.8	1.1
United Kingdom	3.2	0.4	2.0	1.3
Italy	−1.2	0.5	3.0	2.0
Canada	3.3	2.1	4.7	5.0

[a] Based on Linked Policy Impact Model.

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gains—which forecasters predict will continue in 1985—will provoke Washington to impose such protectionist measures as an import tariff surcharge, which could abort their own tentative economic recoveries. On the other side of the coin, West Europeans are also concerned about the ›tential disruption to trade and monetary relations he dollar were to slide rapidly

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